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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PO](#)  
SUBJECT: PORTUGAL BANKERS SEE PROGRESS BUT A DIFFICULT 2010

REF: A. 08 LISBON 2666  
[1](#)B. 08 LISBON 2707

Classified By: Gary B. Applegarth, Pol-Econ Officer, Reasons 1.4 (b) and (d).

SUMMARY

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[1](#)1. (U) On April 14 five leading Portuguese financiers told the Ambassador the Portuguese economy is faring well through the first year of the global financial crisis but rising unemployment and higher interest rates are looming challenges for 2010. The group called for a stronger hand by the Central Bank and applauded the "more relevant" G-20 summit. End summary.

PORTUGUESE FINANCIAL SECTOR OKAY, BUT FACES MORE CHALLENGES

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[1](#)2. (U) In an April 14 meeting, executives from five leading Portuguese financial institutions shared their views on how Portugal is weathering the current global financial crisis. Attending the meeting were Fernando Ulrich of Banco BPI, Nuno Amado of Santander Totta, Carlos Rodrigues of Banco de Investimento Global (BiG), Nestor Paz-Galindo of JP Morgan Chase, and Carlos Santos Ferreira of Millenium BCP.

[1](#)3. (U) Paz-Galindo said Portuguese financial markets are "doing okay" through 2009, bank earnings are improving, and "everyone is trying to determine if we are experiencing a bear rally or if we have really hit bottom" and are on the way back up. Financial sector capital liquidity has improved, but investment liquidity is still lacking. Rodrigues added that GOP interventions in the financial sector last fall were necessary due to poor management and malfeasance at the target banks, but the sector is now stable.

[1](#)4. (C/NF) Ulrich cautioned, however, that increasing unemployment will put further stress on the Portuguese economy next year. Amado concurred, worrying that in 2010 higher interest rates could create a heavy interest burden on the economy. Santos Ferreira opined that increasing unemployment and public stress over the economy could produce historically strong results for the Left Bloc and Communists in the upcoming elections, but the others projected the ruling Socialists' relative fiscal conservatism before the crisis would pay off through continued public support.

STRONG CENTRAL BANK, RATING AGENCY TRANSPARANCY NEEDED

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[1](#)5. (C/NF) The financiers all called for a stronger regulatory hand by the Central Bank and decried the Bank's slowness to take action on poorly performing banks. All of the bankers said the Portuguese banking sector needs consolidation but they are skeptical of the Central Bank's will to achieve this. Santos Ferreira said additional regulation is needed in areas "where none exists," such as

regarding hedge funds or financial derivatives.

¶16. (C/NF) Amado added that more transparency of the rating agencies is needed, complaining that some U.S. and European banks which ultimately failed had been rated higher prior to their closure than his own bank, which continues to operate and meet its obligations. The group joked about the need to "rate the raters" but doubted efforts by French President Sarkozy and German Chancellor Merkel to enact tighter supervision of rating agencies will bear fruit.

#### G-20 MEETING A WELCOME DEVELOPMENT

¶17. (U) The group had a favorable impression of the recent G-20 summit. They agreed that the summit was a positive show of international cooperation and dialogue, even though it produced little tangible outcome. Rodrigues applauded the creation of the "more relevant" G-20, replacing the G-7 which "unbelievably" excluded many of the world's largest economies.

#### COMMENT

¶18. (C/NF) The bankers were more upbeat than in similar meetings last fall (reftel A, B), and their lighter dispositions underscored their cautious optimism. We agree with the bankers' belief that the Portuguese economy will begin to trend up as the U.S. and larger European economies recover, and barring additional scandal among the ruling Socialists we doubt the crisis alone will result in dramatic changes in the upcoming elections. End comment.

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